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Brazil

Grain and Feed

Corn and Rice Update

2004

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Report Highlights:

Post forecast corn production in 2003/04 is raised 1 million tons to 42.0 million tons and production in 2004/05 is lowered 500,000 tons to 42.5 million tons. Rice production in 2003/04 is raised 600,000 tons to 12.8 million tons to reflect the final government estimate. Forecast imports in 2003/04 are raised 250,000 tons to 750,000 tons. Production in 2004/05 is forecast at 11.6 million tons, up 600,000 tons from the previous forecast while imports are forecast down 150,000 tons to a total of 850,000 tons.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Corn

Corn PS&D

Brazil							
Corn							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		03/2003		03/2004		03/2005	MM/YYYY
Area Harvested	12956	12956	12600	12800	13000	12900	(1000 HA)
Beginning Stocks	720	2260	3873	5440	3123	4890	(1000 MT)
Production	44500	44500	41500	42000	43000	42500	(1000 MT)
TOTAL Mkt. Yr. Imports	778	800	550	250	400	300	(1000 MT)
Oct-Sep Imports	521	520	700	625	500	400	(1000 MT)
Oct-Sep Import U.S.	8	8	0	0	0	0	(1000 MT)
TOTAL SUPPLY	45998	47560	45923	47690	46523	47690	(1000 MT)
TOTAL Mkt. Yr. Exports	4625	4620	4000	4000	4000	4500	(1000 MT)
Oct-Sep Exports	3181	3181	5500	5500	3000	3000	(1000 MT)
Feed Dom. Consumption	34000	34000	35000	35000	36200	36000	(1000 MT)
TOTAL Dom. Consumption	37500	37500	38800	38800	40000	40000	(1000 MT)
Ending Stocks	3873	5440	3123	4890	2523	3190	(1000 MT)
TOTAL DISTRIBUTION	45998	47560	45923	47690	46523	47690	(1000 MT)

Production

Corn production for 2003/04 was raised 1 million tons to 42.0 million tons. The revision is due to greater safrinha (winter-crop) production than expected. However, the safrinha crop is more than 2 million tons lower than last year's crop. Most of the fall in safrinha production from last year is due to lower yields and area in Parana, which accounted for 2 million tons less in production than 2002/03. The state was plagued by dryness at planting followed by frosts and moisture at harvest. Nevertheless, the overall safrinha crop was aided by production in Mato Grosso, the second largest safrinha corn production state, which Post estimates at 200,000 tons greater than last year.

Post forecasts 2004/05 production forecast at 42.5 million tons, which is 500,000 tons more than the estimate in 2003/04. CONAB unofficially forecasts production at 44 million tons, based on a recent corn report. The greater 2004/05 production is expected to come from a larger winter crop (forecast by Post at 13 million tons) rather than the summer crop (29.5 million tons). This past year's safrinha crop was reduced in area in favor of wheat due to the drought in the South. Assuming more normal weather, Post expects producers to move back some wheat area into winter corn.

Post believes the summer crop will be down slightly from last year's summer crop. This is due to weakening prices over the past few months, off from the April highs. With the expected record U.S. crop and this year's safrinha crop harvest pressure, prices are not expected to recover through planting. Further de-stimulating production is the very high cost of inputs, which would favor less input intensive crops such as soybeans. It is estimated that production costs for the 2004/05 crop will be 40 percent more than the previous year in some areas. Corn production depends greatly on nitrogen-based fertilizers such as urea,

which is more costly now due to the rise in oil and natural gas prices. A recent study by the Agriculture Federation of Brazil (CNA) reveals that in 2003, 50 sacks of corn were needed to buy a ton of fertilizer, while this year the figure has increased to 56 sacks or more. Besides the impact on planted area, fertilizer costs should restrain use and prevent an increase in yields, as trend analysis would otherwise suggest. Contacts in western Bahia suggest that given current prices and costs of production, planting corn in the region would lead to a net loss. However, most producers make planting decisions based on expected future prices with current prices and costs in mind. Therefore, those that are opting to plant corn are betting on a price increase before harvest which some suggest is unlikely. However, it must be noted that even though a second record global corn crop is expected; global stocks are expected to fall, which could support prices.

Dry conditions in Parana and Rio Grande do Sul should favor soybeans over corn for the summer crop as soil moisture levels are about 20 percent lower than last year at this time. Contacts suggest corn planting is running behind and producers are looking to move to back-to-back soybean crops. However, rains in the south this past week appear to be improving the planting situation, but more rain is needed. Syngenta has publicly reported that seeds sales reveal a fall in summer corn area. It is expected that summer area will fall in Mato Grosso as well as Rio Grande do Sul. The August soybean/corn price spread (see chart) continues strong and also supports the expectation by Post that soy area will increase at the expense of corn.

August Soybean/Corn Price Spreads					
R\$ per 60kg sack in Parana					
	2000	2001	2002	2003	2004
Aug Spread	4.92	16.34	18.43	20.21	20.95

Another aspect taken into account in Posts 29.5 million tons estimate for the summer crop is that producers continue to complain about lack of liquidity and credit for corn as well as insufficient government involvement in the form of options contracts. Approximately 800,000 tons of safrinha corn went under contract this past crop but producers suggest much more was needed to stabilize prices.

Trade

Post forecasts 2003/04 October/September exports at 5.5 million tons based on exports to date (see chart below) and Post forecasts marketing year (March 2004 to April 2005) exports at 4.0 million tons, which is unchanged from the previous Post forecast. Brazilian exports (2.9 million tons) during the first half of the marketing year were very strong due to competitive internal prices and a large supply of grain stored near the ports. However, for the second half of the marketing year exports should slow significantly. Brazilian exports are expected to face less competition from Argentine corn due to strong demand from the Argentine livestock sector and heavy early season sales. As a result Argentine sales over the next few months before harvest are expected to be very low. China is also expected to provide less competition due to high internal prices. Nevertheless, despite less competition from these exporters, shipments from the bumper U.S. crop and abundant global supplies of feed quality wheat will restrain Brazilian exports. In fact, U.S. Corn FOB Gulf is currently quoted \$10 to \$12 less than Brazilian corn FOB Paranagua. The strengthening value of the Brazilian Real will also restrain exports over the next several months and contacts report that very few sales have been executed recently.

Strong demand from the domestic pork and poultry sectors during the second half of the year combined with uncertainty over the 2004/05 summer crop should also support internal prices enough to make Brazilian supplies priced under those from the United States. Shipments will likely recommence in earnest in February. However, it should be noted that some exports before then are still likely due to the fact that Brazilian corn is considered GMO free and the quality of corn leaving from the port of Paranagua is said to be very good this year due to higher grain standards and increased cleaning at the port.

Brazilian Corn Exports by Destination (1000 tons)		
Destination	October 2002/Aug 2003 (11 months)	October 2003/Aug 2004 (11 months)
Iran	404	1,051
Spain	599	940
South Korea	577	939
Italy	0	411
Netherlands	0	323
Poland	0	272
Portugal	36	204
Belgium	0	159
Slovenia	0	155
Saudi Arabia	96	127
Bulgaria	0	107
Japan	186	78
Germany	0	73
Romania	17	69
North Korea	8	68
Morocco	200	61
Others	430	249
Total	2,553	5,286

Post forecasts 2003/04 marketing year (March/Feb) imports at just 250,000 tons, which is down 200,000 tons from the previous forecast. Post has learned that about half of the imports from Paraguay in 2002/03 were re-exported from the port of Paranagua as Brazilian exports. Paraguayan corn does not enjoy a great reputation in the global market and thus Brazilian traders found it profitable to import the Paraguayan supplies, clean it, and re-export the grain as Brazilian. The other half of the imports were destined for poultry operations in western Santa Catarina that need the cheap feed. However, this year buyers in Santa Catarina and Rio Grande do Sul are not satisfied with the quality of corn from Paraguay which was affected by frosts resulting in small and damaged grain. It is reported that buyers in these two states are shifting future purchases away from Paraguay in favor of supplies from other parts of Brazil.

Rice

Rice PS&D

Brazil							
Rice, Milled							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		04/2003		04/2004		04/2005	MM/YYYY
Area Harvested	3186	3186	3680	3597	3500	3300	(1000 HA)
Beginning Stocks	538	522	687	570	1437	1478	(1000 MT)
Milled Production	7018	7050	8600	8708	8100	7900	(1000 MT)
Rough Production	10321	10368	12647	12806	11912	11618	(1000 MT)
MILLING RATE (.9999)	6800	6800	6800	6800	6800	6800	(1000 MT)
TOTAL Imports	1250	1117	600	750	600	850	(1000 MT)
Jan-Dec Imports	1200	1063	500	800	500	800	(1000 MT)
Jan-Dec Import U.S.	347	331	0	50	0	75	(1000 MT)
TOTAL SUPPLY	8806	8689	9887	10028	10137	10228	(1000 MT)
TOTAL Exports	19	19	50	50	50	25	(1000 MT)
Jan-Dec Exports	19	19	50	50	50	25	(1000 MT)
TOTAL Dom. Consumption	8100	8100	8400	8500	8450	8650	(1000 MT)
Ending Stocks	687	570	1437	1478	1637	1553	(1000 MT)
TOTAL DISTRIBUTION	8806	8689	9887	10028	10137	10228	(1000 MT)

Production

Post raised the area and production estimate for 2003/04 in accordance with CONAB final figures. Post also raised the production forecast for 2004/05 to 11.6 million tons, which is 1.2 million tons less than the previous year. Post forecasts production in Mato Grosso to fall by nearly half this year as producers opt to plant soybeans due to the rising cost of inputs. At the same time that input, particularly fertilizer, costs have been soaring, domestic prices have been falling due to the large domestic and Mercosul harvest last year. Many producers in all rice producing regions are frustrated over lack of liquidity for last year's crop and may switch to soybeans, which offer the potential for greater profit margins next year and for which it is easy to obtain production financing. Another factor that should lead to reduced plantings in Mato Grosso is the state government's action of raising the ICMS tax, which is a tax levied on rice exported out the state. The increase is meant to support rice producers in the state but the result has been less demand for rice from Mato Grosso by mills in neighboring states, which has impacted prices.

Production is also forecast down in Rio Grande do Sul (RS) where drought in western portions of the state may reduce plantings by as much as 20 percent. According to a producer organization in the state, plantings for the entire state may fall by as much as 30 percent. Nevertheless, the majority of planting occurs in October and rain over the next few weeks could improve the situation. Water is needed since reservoirs for irrigation are low due to below normal precipitation since late 2003. Further destimulating rice plantings are prices in the state, which are currently weak as commercialization of last year's crop is about

25 percent behind the normal pace. The price chart below illustrates that prices have dropped more than 25 percent since January. At the same time that farmers are holding onto rice in hopes of better prices, rice from neighboring Mercosul countries is flooding the state.

In Santa Catarina, planting is well underway and soil-moisture conditions are much more favorable than further south in Rio Grande do Sul (RS) or in Parana to the north.

Rough Rice Prices in Rio Grande do Sul													
US \$ Per 50 Kg Sack													
	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Avg.
2002	7.7	6.9	6.6	6.6	6.6	6.3	6.1	6.2	6.5	6.8	7.9	7.7	6.8
2003	8.2	7.5	7.4	9.4	11.6	11.4	11.6	11.4	11.6	11.7	12.7	13.4	10.7
2004	13.8	12.6	11.2	11.4	10.8	10.1	10.4	10.2					11.4

Source: Secretaria De Agricultura e Abastecimento de RGDS

Trade

Post's forecast for trade year (Jan/Dec) imports is raised 100,000 tons to a new forecast of 800,000 tons with shipments through August totaling 540,000 tons on a milled basis, according to the Ministry of Industrial Development and Foreign Trade. Post also raised the marketing year (beginning in April 2004) estimate to 750,000 tons due to the fact that imports for the first five months totaled 345,000 tons. Post forecasts are based on the assumption that the government does not block imports, as has been requested by Brazilian producer organizations. Overall imports of rough rice are only about 30 percent that of January to August of 2003 but total imports through August are near those of last year mostly due to increased imports of milled rice from Vietnam and Thailand. Imports from these exporters through August total 160,000 tons (rough basis). Total milled rice imports are nearly double that of last year. Meanwhile, U.S. rice imports remain forecast at just 50,000 tons due to stronger competitor supplies and large domestic supplies.

Despite a massive Brazilian harvest of 12.8 million tons last year, imports have been strong over the past few months with shipments arriving from neighboring countries at just US\$8.50 to US\$9.0 per sack, while the estimated cost of production in RS is US\$9.5 to \$10.0 per sack. It is important to note that the cost of rice production is much lower in Argentina and Uruguay and thus suppliers from these countries can undercut Brazilian prices. Additionally, Argentine quality is reported to be very good this year. Total imports (on a milled basis) over the first 8 months of the year are about 4 percent greater than last year when the crop was much smaller. This is due to the fact that Argentina and Uruguay also enjoyed large crops last year and producers in Brazil are holding onto supplies.

Post forecasts exports at just 50,000 tons. While several of Post's contacts are optimistic about exports, price spreads suggest it will be very difficult to compete with less expensive milled Thai supplies. Nevertheless, the efforts of cooperatives in the South to export can't be ignored and up to 25,000 tons of sales are reported, including milled rice to Chile and Trinidad and Tobago. Post expects shipments through the end of the year to be minimal and mostly rough rice. However, if current sales are not completed, exports could finish at less than 20,000 tons.

Consumption

Contacts suggest rice consumption will be 8.7 million tons next year, which is an increase of 5 percent from this year due to a rebound in the economy. Consumption will also benefit from a recent reduction to zero in the PIS/Cofins tax on rice, due to the fact that rice is part of the basic food basket in Brazil. Post increased both 2004 and 2005 consumption to reflect a rebound in the economy and lower domestic prices for rice.

Policy

Recent WTO decisions in favor of Brazil on cotton and sugar have encouraged rice farmers to consider targeting subsidies paid to U.S. rice producers. Seven South American countries, including the major rice producing countries of Brazil, Argentina, and Uruguay, have expressed interest in filing a dispute in the WTO. Their complaint is that supports to U.S. rice farmers lead to overproduction and subsequent low prices that hurt the competitiveness of Mercosul rice growers. Producer organizations in the southern Brazilian state of Rio Grande do Sul argue that the expected increase in U.S. rice production in 2004/05 is evidence of the harm U.S. subsidies cause.

A representative of the Brazilian Rural Society that played a prominent role in the cotton case suggests that a victory with rice is very likely given that the WTO already ruled against similar U.S. programs for cotton. He suggests that the subsidies given to U.S. rice producers between 1999 and 2002 corresponded to 145 percent of the value of production. This compares with subsidies estimated at 89 percent of cotton production. However, a few of the obstacles facing rice producers are: a) Unlike cotton, they won't have the support of poor African nations; b) Brazil is not a traditional exporter and thus showing damage will be more difficult; c) producers likely don't have the financial resources of cotton producers; d) rice producers don't have the political clout of cotton producers since rice is an imported commodity and the government has an interest in keeping rice prices under control in order to curb inflation. (For more information see Post report BR4621)

Producers in Mercosul are calling for an end to non-Mercosul rice imports and an increase in the Common External Tariff for rice from 10 percent to 35 percent. Meanwhile, producers in Rio Grande do Sul (RS) are pushing the government to block rice imports from neighboring Mercosul countries, which they claim are entering at less than the cost of production in RS. It is unlikely that either of these requests will be granted.